

E-Filed 5/15/06

NOT FOR CITATION

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION**

DOLBY LABORATORIES, INC., et al.,

Plaintiffs,

V.

LUCENT TECHNOLOGIES, INC.,

Defendant.

Case Number C 01-20709 JF

**ORDER¹ GRANTING IN PART AND
DENYING IN PART DOLBY'S
MOTION FOR ATTORNEYS' FEES**

[re: docket no. 700]

AND RELATED COUNTERCLAIMS

I. BACKGROUND

On May 31, 2001, Plaintiffs/Counter-Defendants Dolby Laboratories, Inc., and Dolby Laboratories Licensing Corporation (collectively “Dolby”) filed suit against Defendant/Counterclaimant Lucent Technologies Inc. and Counterclaimant Lucent Technologies Guardian I LLC (collectively “Lucent”) seeking a declaratory judgment of invalidity and non-infringement as to several of the claims of Lucent’s United States Patents No. 5,341,457 (“the ‘457 patent”) and No. 5,627,938 (“the ‘938 patent”). On August 8, 2002, Lucent filed an Answer and

¹ This disposition is not designated for publication and may not be cited.

1 Counterclaims against Dolby, asserting counterclaims that Dolby infringed the '457 and '938
 2 patents.

3 On April 22, 2005, the Court issued Orders granting Dolby's motions for summary
 4 judgment of non-infringement, of no inducement of infringement, and of no contributory
 5 infringement of the '457 and '938 patents. On September 6, 2006, the Court granted Lucent's
 6 motion to dismiss without prejudice Dolby's affirmative defenses and Dolby's claims for
 7 declaratory judgment that the '457 and '938 patents are invalid. On the same date, the Court
 8 entered judgment in accordance with its Orders dated April 22, 2005 and September 6, 2005. On
 9 September 27, 2005, the Court issued an order clarifying footnote 2 of the September 6, 2005
 10 Order to make clear that Dolby's motion for summary judgment of non-infringement of the '457
 11 and '938 patents regarding Dolby's cinema technology was granted.

12 On September 27, 2005, Dolby filed a motion for attorneys' fees. Lucent opposes the
 13 motion. The Court heard oral argument on November 18, 2005.

14 **II. LEGAL STANDARD**

15 Dolby brought its motion for attorneys' fees pursuant to 35 U.S.C. § 285, 28 U.S.C. §
 16 1927, and Federal Rules of Civil Procedure 11 and 54. Federal Rule of Civil Procedure 54
 17 "establishes a procedure for presenting claims for attorneys' fees," Fed. R. Civ. P. 54(d)(2)
 18 Advisory Committee Notes 1993 Amendment. Federal Rule of Civil Procedure 11, 35 U.S.C. §
 19 285, and 28 U.S.C. § 1927 provide substantive bases for awarding attorneys' fees. However,
 20 because Dolby does not state any reason for awarding fees pursuant to 28 U.S.C. § 1927,² the
 21 Court will not award any fees pursuant to this statute.

22 Pursuant to 35 U.S.C. § 285, "[t]he court in exceptional cases may award reasonable
 23 attorney fees to the prevailing party." The two-step inquiry for considering a request for

24
 25
 26 ² "Any attorney or other person admitted to conduct cases in any court of the United
 27 States or any Territory thereof who so multiplies the proceedings in any case unreasonably and
 28 vexatiously may be required by the court to satisfy personally the excess costs, expenses, and
 attorneys' fees reasonably incurred because of such conduct." 28 U.S.C. § 1927.

1 attorneys' fees pursuant to 35 U.S.C. § 285 involves (1) "determinat[ion] whether there is clear
 2 and convincing evidence that the case is 'exceptional,'" and (2) "if so, whether an award of
 3 attorney fees to the prevailing party is warranted." *Interspiro USA, Inc. v. Figgie Intern. Inc.*, 18
 4 F.3d 927, 933 (Fed. Cir. 1994). The Court may deem a case "exceptional when there has been
 5 some material inappropriate conduct related to the matter in litigation, such as willful
 6 infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation,
 7 vexatious or unjustified litigation, conduct that violates Fed.R.Civ.P. 11, or like infractions."
 8 *Brooks Furniture Mfg., Inc. v. Dutailier Intern., Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).
 9 "Absent misconduct in conduct of the litigation or in securing the patent, sanctions may be
 10 imposed against the patentee only if both (1) the litigation is brought in subjective bad faith, and
 11 (2) the litigation is objectively baseless." *Id.*

12 Additionally, as Dolby argues, sanctions may be imposed pursuant to Federal Rule of
 13 Civil Procedure 11:

14 Defending against baseless claims of infringement subjects the alleged infringer to
 15 undue costs—precisely the scenario Rule 11 contemplates. Performing a
 16 pre-filing assessment of the basis of each infringement claim is, therefore,
 17 extremely important. In bringing a claim of infringement, the patent holder, if
 18 challenged, must be prepared to demonstrate to both the court and the alleged
 19 infringer exactly why it believed before filing the claim that it had a reasonable
 20 chance of proving infringement. Failure to do so should ordinarily result in the
 21 district court expressing its broad discretion in favor of Rule 11 sanctions, at least
 22 in the absence of a sound excuse or considerable mitigating circumstances.

23 *View Engineering, Inc. v. Robotic Vision Systems, Inc.*, 208 F.3d 981, 986 (Fed. Cir. 2000); see
 24 also, *Epcos Gas Systems, Inc. v. Bauer Compressors, Inc.*, 279 F.3d 1022, 1035 (Fed. Cir. 2002)
 25 (noting that remedies pursuant to Federal Rule of Civil Procedure 11 are available when a party
 26 "failed to perform an adequate investigation prior to filing the complaint"); Dolby's Motion for
 27 Attorneys' Fees, p. 23.

28 III. DISCUSSION

29 Dolby seeks attorneys' fees for a wide range of alleged misconduct, bad faith actions,
 30 delays, and misrepresentations by Lucent during the four-year course of the instant litigation.
 31 The Court is sympathetic with Dolby's position, particularly in light of certain aspects of

1 Lucent's conduct in the course of discovery. However, considering as a whole the conduct of
 2 both parties during the years of litigation, the Court, in its discretion, concludes that the majority
 3 of Lucent's conduct is not so "exceptional" as to merit the imposition of sanctions. The one
 4 exception, discussed below, is Lucent's assertion of counterclaims based on Dolby's cinema
 5 technology.

6 Dolby seeks attorneys' fees for Lucent's alleged "scare-the-customer-and-run" tactics
 7 prior to litigation, delay during discovery and litigation, and misrepresentations. Conduct leading
 8 up to contentious litigation is rarely the picture of civility, and Lucent's aggressive
 9 communications with Dolby's customers are no exception. After litigation commenced, to the
 10 extent that Lucent's actions may have delayed litigation, these actions were by no means
 11 exceptional. Lucent's conduct during discovery occasionally did rise to the level of being
 12 sanctionable—and Lucent has been sanctioned significantly for this misconduct. For example,
 13 on December 15, 2004, Magistrate Judge Richard Seeborg issued an Order granting Dolby's
 14 motion to compel further testimony of Lucent, with the costs to be paid by Lucent. On January
 15 28, 2005, Magistrate Judge Seeborg issued an Order (1) requiring Lucent to reimburse Dolby in
 16 the amount of \$29,083.43 for expenses incurred by Dolby in re-deposing Lucent's Rule 30(b)(6)
 17 witnesses, and for the fees and costs incurred in filing the motion for sanctions, (2) requiring
 18 Lucent to provide verified responses to specific questions, and (3) precluding Lucent from
 19 offering specified evidence on summary judgment or at trial. On May 9, 2005, Magistrate Judge
 20 Seeborg ordered Lucent to pay to Dolby the sum of \$69,651.25 for the fees and costs incurred in
 21 filing the motion for sanctions that resulted in the January 28, 2005 Order. This Court overruled
 22 Lucent's objection to Magistrate Judge Seeborg's Orders. The Court sees no need to award
 23 additional discovery-related sanctions, nor will this Court issue sanctions for Lucent's alleged
 24 misrepresentation to Judge Brewster of the United States District Court for the Southern District
 25 of California, because the alleged misrepresentations did not occur in the instant litigation.

26 Dolby also argues that Lucent's infringement claims with respect to the '457 and '938
 27 patents, which failed to survive summary judgment, were brought in bad faith. However, the fact
 28 that Lucent failed to present sufficient evidence to defeat summary judgment does mean that

1 Lucent's claims necessarily were brought in bad faith. Dolby's claim that Lucent has conceded
 2 that the '938 patent is invalid over multiple prior art references is not supported by clear and
 3 convincing evidence. Lucent's statement filed in connection with its reissue application that the
 4 '938 patent was "partly inoperative or invalid by reason of a defective specification," Fisher
 5 Decl. Ex. 1, p. 1, does not constitute an admission. *See, e.g., Orthokinetics, Inc. v. Safety Travel*
 6 *Chairs, Inc.*, 806 F.2d 1565, 1577 (Fed. Cir. 1986) (holding that a statement in a reissue oath that
 7 "'the original patent to be wholly or partly inoperative or invalid'" was not a "'binding
 8 admission' of anticipation"). A reissue oath or declaration

9 *must . . . state that . . . [t]he applicant believes the original patent to be wholly or*
 10 *partly inoperative or invalid by reason of a defective specification or drawing, or*
 11 *by reason of the patentee claiming more or less than the patentee had the right to*
 12 *claim in the patent, stating at least one error being relied upon as the basis for*
 13 *reissue.*

14 37 C.F.R. § 1.175(a) (emphasis added). Nor do Lucent's supplemental responses to request
 15 numbers 3, 5-7, and 15-30 include admissions that constitute clear and convincing evidence that
 16 Lucent brought its claims in bad faith. Lucent did admit that claims 1 through 4 of the '938
 17 patent are anticipated, "if the priority date of the '938 patent is 992 or later." Declaration of
 18 Jason S. Grauch in Support of Defendant Lucent Technologies Inc.'s Opposition to Dolby
 19 Laboratories, Inc. and Dolby Laboratories Licensing Corporation's Motion for Attorney's Fees
 20 ("Grauch Decl."), Ex. P, pp. 17-20. However, Lucent also stated that the United States Patent
 21 and Trademark Office ("USPTO") "has determined that the '938 patent is entitled to an effective
 22 filing date of December 30, 1988," and that its admission was only "under the limited,
 23 *hypothetical, and nonexistent* circumstances that the priority date of '938 patent is 1992 or later."
 24 *Id* (emphasis added).

25 Dolby argues that Lucent engaged in inequitable conduct before the USPTO in filing its
 26 reissue application for the '938 patent. Without reaching the merits of this argument, the Court
 27 concludes that any possible inequitable conduct with respect to this reissue application is not an
 28 appropriate basis for sanctions here. As Lucent notes in opposition, the USPTO has not yet
 issued a patent as a result of the reissue application, and Lucent has not alleged any inequitable
 conduct before the USPTO with respect to the two patents that were at issue in the instant

1 litigation. Dolby cites no case authority for the proposition that inequitable conduct before the
 2 USPTO with respect to a patent not directly at issue in the litigation can be a basis for sanctions.

3 The Court agrees with Dolby, however, that Lucent's conduct with respect to its
 4 counterclaims relating to Dolby's cinema technology does warrant the imposition of sanctions.
 5 Lucent alleged in its "Amended and Supplemental Patent Local Rule 3-1 Disclosure of Asserted
 6 Claims and Preliminary Infringement Contentions" that Dolby infringed the '457 and '938
 7 patents with the following accused products: "Dolby's and Dolby's licensees' *cinema*, consumer,
 8 professional, and any other products that implement AC-3 technology and/or are made by the
 9 AC-3 process—including products referred to as 'Dolby Digital' products." Declaration of
 10 Jeffrey M. Fisher in Support of Dolby's Motion for Attorney's Fees ("Fisher Decl."), Ex. 00, p. 2
 11 (emphasis added). However, Lucent accused Dolby's customers of violating its patents with
 12 respect only to Dolby's *consumer* technology. *See, e.g.*, Fisher Decl., Ex. WWW. Moreover,
 13 Lucent never produced a claim chart comparing the cinema technology with its patent claims.
 14 *See, e.g.*, Fisher Decl., Ex. YYY.

15 On November 11, 2004 and December 1, 2004, counsel for Dolby sent letters to Lucent's
 16 counsel requesting that Lucent withdraw its allegations of infringement against the cinema
 17 technology. Fisher Decl., Exs. DDDD and EEEE. Lucent apparently failed to respond to either
 18 letter.³ On January 28, 2005, Dolby moved for summary judgment with respect to its cinema
 19 technology. Lucent never filed opposition to this motion. Lucent and Dolby communicated
 20 about a possible stipulation to the dismissal of its claims related to the cinema technology, but no
 21 stipulation resulted. Fischer Decl., Ex. GGGG. On September 27, 2005, the Court issued an
 22 order clarifying the September 6, 2005 Order to make clear that Dolby's motion for summary
 23 judgment of non-infringement of the '457 and '938 patents regarding Dolby's cinema technology
 24 was granted.

25 Lucent acknowledges that it never produced a claim chart with respect to Dolby's cinema
 26 technology. Nonetheless, it argues that it brought its claims of infringement of the cinema
 27

28 ³ Lucent does not contradict this allegation in its opposition.

1 technology in good faith, asserting that it “relied on Dolby’s technical documents which stated
 2 that it employed the *same* basic perceptual coding technique as Dolby’s AC-3 consumer
 3 products.” Opposition, p. 6. However, the only “technical document” Lucent cites is a
 4 description of “Dolby Digital” available on Dolby’s website, which states that the cinema
 5 technology is “*based on* the same advanced perceptual coding technique, Dolby AC-3.” Grauch
 6 Decl., Ex. H., p. 1 (emphasis added). The website also states: “*Much like* Dolby’s analog fil
 7 sound formats, Dolby Digital in the cinema has provided a *springboard* for consumer formats.”
 8 *Id.*, p. 2 (emphasis added).

9 Lucent also attempts to justify its pursuit of its cinema technology counterclaims on the
 10 ground that Dolby delayed discovery on this issue. Dolby did not produce the algorithms used in
 11 its cinema technology and a relevant witness for deposition until Magistrate Judge Seeborg
 12 issued an Order on May 26, 2004, granting Lucent’s motion to compel this discovery. Lucent
 13 claims that it concluded that it should dismiss the cinema technology counterclaims after it
 14 became apparent that it would not have the deposition testimony of a second relevant witness,
 15 which was delayed by Dolby and then barred by Magistrate Judge Seeborg’s Order of December
 16 15, 2004 prohibiting all further depositions. Lucent contends that by this point, Dolby already
 17 had filed its motion for summary judgment.

18 In *View Engineering, Inc. v. Robotic Vision Systems, Inc.*, involving a similar factual
 19 situation, the Federal Circuit upheld a district court’s imposition of sanctions pursuant to Federal
 20 Rule of Civil Procedure 11. *View Engineering*, 208 F.3d 981, 984-87 (Fed. Cir. 2000). In that
 21 case, the Defendant-Appellant, having not seen the accused product, based the filing of its
 22 counterclaims on the personal knowledge of a Defendant-Appellant executive and on Plaintiff-
 23 Appellee’s advertising and statements made to its customers. *Id.* at 985. In *Q-Pharma, Inc. v.*
 24 *Andrew Jergens Co.*, the Federal Circuit has held similarly: “In the context of patent
 25 infringement actions, we have interpreted Rule 11 to require, at a minimum, that an attorney
 26 interpret the asserted patent claims and compare the accused device with those claims before
 27 filing a claim alleging infringement.” *Q-Pharma, Inc.*, 360 F.3d 1295, 1300-01 (Fed. Cir. 2004).

1 iii. *Estimated value of the fees sought*

2 Lucent argues that Dolby's motion should be denied on the ground that it does not
 3 include an estimated value of the fees sought. Federal Rule of Civil Procedure 54(2)(B)
 4 provides: "Unless otherwise provided by statute or order of the court, the motion . . . *must* state
 5 the amount or provide a fair estimate of the amount sought" (emphasis added). It is true, as
 6 Dolby's counsel noted during oral argument, that "[t]he court may determine issues of liability
 7 for fees before receiving submissions bearing on issues of evaluation of services for which
 8 liability is imposed by the court." Fed. R. Civ. P. 54(2)(C). However, the Advisory Committee
 9 Notes to Federal Rule of Civil Procedure 54 further explain:

10 The rule does not require that the motion be supported at the time of filing with
 11 the *evidentiary* material bearing on the fees. This material must of course be
 12 submitted in due course, according to such schedule as the court may direct in
 light of the circumstances of the case. *What is required* is the filing of a motion
 13 sufficient to alert the adversary and the court that there is a claim for fees, and the
 amount of such fees (or a fair estimate).

14 ...

15 The court is explicitly authorized to make a determination of the liability for fees
 16 before receiving submissions by the parties bearing on the amount of an award.
 17 This option may be appropriate in actions in which the liability issue is doubtful
 and the evaluation issues are numerous and complex.

18 Fed.R. Civ. P. 54 Advisory Committee Notes 1993 Amendment (emphasis added).

19 In the interest of deciding Dolby's motion on the merits, the Court will not deny it for
 20 failing to include an estimate of the fees sought, as is required by Federal Rule of Civil Procedure
 21 54(2)(B). While it does not excuse Dolby's failure to comply with Rule 54(2)(B), the Court
 22 notes also that the length and complexity of the instant litigation would have made it difficult for
 23 Dolby to provide even an estimate of its attorney's fees. *Cf. DeShiro v. Branch*, 183 F.R.D. 281,
 24 285 nn.2-3 (M.D. Fla. 1998).

25 **IV. ORDER**

26 Good cause therefore appearing, IT IS HEREBY ORDERED that the instant motion is
 27 GRANTED IN PART and DENIED IN PART, as set forth above.

28 IT IS FURTHER ORDERED that Dolby shall submit a detailed accounting of the

1 attorney's fees it incurred as a result of Lucent's conduct with respect to its counterclaims
2 relating to Dolby's cinema technology not later than May 26, 2006. Lucent shall file any
3 opposition not later than June 2, 2006, and Dolby shall file any reply not later than June 9, 2006.

4

5 DATED: May 15, 2006

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28



JEREMY FOGEL
United States District Judge

1 This Order has been served upon the following persons:

2 G. Seth Beal seth_beal@la.kirkland.com, david_shukan@la.kirkland.com;
3 maguillon@kirkland.com
4 John L. Cooper jcooper@fbm.com, brestivo@fbm.com; calendar@fbm.com
5 John M. Desmarais jdesmarais@kirkland.com
6 Jeffrey M. Fisher jfisher@fbm.com, renterig@fbm.com; calendar@fbm.com
7 Darrell A. Fruth dfruth@fbm.com, calendar@fbm.com; cschnurmacher@fbm.com
8 Jason Spencer Grauch jgrauch@kirkland.com,
9 Nan E. Joesten joestenn@fbm.com, calendar@fbm.com; ksmall@fbm.com
10 Alan S. Kellman akellman@kirkland.com, jmafale@kirkland.com
11 Andrew Leibnitz aleibnitz@fbm.com, dwilliams@fbm.com
12 Andrew Leibnitz aleibnitz@fbm.com, dwilliams@fbm.com
13 Sangeetha M. Raghunathan sraghunathan@fbm.com
14 David Shukan dshukan@kirkland.com, akellman@kirkland.com
15
16
17
18
19
20
21
22
23
24
25
26
27
28